Helia

ASX Announcement

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2023 Half Year Results

22 August 2023: Helia Group Limited (Helia or the Company) (ASX:HLI) has adopted AASB 17 Insurance Contracts (AASB 17) in accordance with Australian accounting standards and today reported its financial results for the half year ended 30 June 2023 (1H23).[1]

The Company reported a statutory net profit after tax (NPAT) of $147.5 million. Underlying NPAT was $137.2 million, Statutory NPAT was higher than Underlying NPAT as a result of pre-tax unrealised mark to market investment gains of $16.7 million.

The Helia Board has declared a fully franked interim ordinary dividend of 14.0 cents per share payable on 20 September 2023 to shareholders registered as at 6 September 2023.

1H23 highlights	1H22	1H23	1H23 v 1H22 (%)
Statutory net profit after tax (NPAT) ($m)	57.7	147.5	N.M.[2]
Statutory diluted earnings per share (cps)	14.4	43.6	N.M.
Underlying net profit after tax ($m)[3]	104.0	137.2	32
Underlying diluted earnings per share (cps)	26.0	40.6	56
Ordinary dividend per share (cps)	12.0	14.0	17
Net tangible assets per share ($)	3.12	3.49	12
Annualised underlying return on equity (ROE) (%)	16.5	23.7	720bps

Helia Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said "I am pleased to deliver a strong interim result, reflective of Helia's operational performance and financial resilience. Underlying NPAT is again strong and higher than the prior corresponding period, reflecting the combination of a low claims environment and higher investment income.

"New business volumes over the half have been soft, driven by a cyclical low in new high loan to value ratio (LVR) mortgage lending as well as the increased impact of the Federal Government's First Home Guarantee scheme. In this context, we have been pleased to see that the delivery of our strategy to position the group for the medium term is attracting new exclusive lender contracts and embedding

[1] The financial result of Helia and its subsidiary companies (the Group) is prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), consistent with International Financial Reporting Standards (IFRS). All comparatives have been restated to reflect the adoption of AASB 17 where required.

[2] N.M. Not Meaningful (increases / decreases > 100%).

[3] Underlying NPAT excludes the after-tax impacts of Genworth Financial, Inc. (GFI) separation costs, of unrealised gains/(losses) on shareholders' funds, and of foreign exchange rates on Helia's investment portfolio. The bulk of these foreign exchange exposures are hedged.

existing relationships. We are also pleased to have delivered increased shareholder value via active and appropriate capital management as we navigate the changing economic environment.

"Helia remains focussed on our core purpose of accelerating financial wellbeing through home ownership, now and for the future and we are working tirelessly on our vision to be the leading partner of choice for flexible home ownership solutions."

Operating environment has been supportive

The resilience seen in the Australian labour market was a key positive in 1H23. Unemployment hovered around 50-year lows at 3.5%, hours worked remained near all-time highs and wage growth picked up.

After falling in FY22, national dwelling values look to have troughed in February 2023, down 9.1% from their peak, and have since risen 3.4% to 30 June 2023.

Interest rates continued to rise, with a 100 basis point rise in the RBA cash rate leading to an increase in the average owner occupier variable interest rate to 5.7% during 1H23. Despite the higher rates, employment levels and dwelling values have been surprisingly resilient to date, however the cumulative effect of interest rate rises is still expected to feed through the economy in the period ahead.

Strategy delivering new contracts and embedding existing relationships

In 1H23 Helia was successful in winning a large customer owned bank as a new exclusive customer, the Company's third new exclusive customer over the past 12 months. Helia also successfully renewed contracts for all existing customers that were up for renewal.

The Company continues to enhance its digital experience and during 1H23 implemented a new underwriting and administration platform, replaced legacy systems, and significantly increased the adoption of cloud technology. The roll out of new Application Programming Interfaces (APIs) has also improved lender integration and is contributing to efficient customer onboarding.

Capital management activities continue

During 1H23, Helia completed a $100 million on-market share buy-back, which reduced the share count by 9.1%. Post this active capital management programme, the Company's capital position remained very strong with a Prescribed Capital Amount (PCA) coverage ratio at 30 June 2023 of 1.96 times.

The lower share count and strong 1H23 profitability has permitted an increase in the fully franked 1H23 interim dividend to 14 cents per share and the expected sustainable annual ordinary dividend guidance has also been increased to 28 cents per share with some scope for growth over time.

Taking into account the strong capital position of the Company, the Board today approved a further on-market share buy-back for shares up to a maximum aggregate value of $100 million, commencing in September 2023. Based on Helia's closing share price of $3.64 on 21 August 2023, the buy-back would represent a reduction of 8.7% of the Company's shares on issue or around 27.5 million shares.

Helia reserves the right to vary, suspend or terminate the buy-back at any time and there is no guarantee that the Company will purchase any or all of the shares referred to above. Helia will not buy back more than 65,550,669 of its ordinary shares without seeking further shareholder approval.

1H23 Overview

1H23 key financial measures	1H22	1H23	1H23 v 1H22 (%)
New insurance written (NIW) ($b)	11.2	6.2	(45)
Gross written premium (GWP) ($m)	188.6	96.6	(49)
Insurance revenue ($m)	216.2	219.8	2
Total incurred claims ratio (%)[4]	(3.7)	(18.6)	N.M.
Insurance service result ($m)	142.4	194.8	37
Net financial result	(47.0)	36.7	N.M.
Contractual service margin balance (CSM) ($m)	687.6	657.4	(4)
Closing delinquencies (number)	5,228	4,616	(12)
Delinquency rate (%)	0.51	0.51	0bps
PCA coverage ratio (times)[5]	2.10	1.96[6]	(14)bps

Soft new business due to industry conditions

Top line NIW and GWP fell 45% and 49% respectively on the prior corresponding period and continued to be impacted by the low level of industry new housing loan commitments, especially for loans above an 80% loan to value ratio. The Federal Government First Home Guarantee scheme also continues to have an ongoing negative impact on LMI industry volumes.

Resilient Insurance revenue reflects profile of revenue recognition

Insurance revenue was up 2% on the prior corresponding period, reflecting the pattern of recognition over the life of a policy, whereby revenue in any particular period is a function of GWP volumes over a longer timeframe.

The components of revenue related to Expected insurance service expenses incurred (and the related Risk adjustment recognised as revenue) was down 9% on the prior corresponding period reflecting lower in-force volumes.

The CSM recognised in profit or loss was down 6% on the prior corresponding period reflecting a lower Contractual service margin balance driven by lower volumes. The decline in these components was offset by a benefit from experience variations on premium credits as there were less credits for previously paid premiums in respect of refinanced loans than anticipated.

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[4] Calculated as Total incurred claims divided by Total insurance revenue.

[5] Based on APRA prudential standards applicable from 1 July 2023.

[6] Pro-forma PCA coverage ratio of 1.80 times (allowing for payment of 1H23 dividends and completion of $100 million on-market share buy-back).

Insurance service expense improvement driven by negative total incurred claims

Total incurred claims were negative $40.9 million[7], equating to a Total incurred claims ratio of (18.6%) and within the previously advised range of negative $30 million to negative $45 million.

The negative total incurred claims outcome was caused by low levels of paid claims combined with a reduction in the Liability for incurred claims (LIC), arising from low levels of delinquencies as well as stronger than expected house prices and some changes to the reserving basis (contributing approximately $25 million).

New delinquencies rose from FY22 levels but were down 9% on the prior corresponding period and remain well below historical levels, reflecting the economic environment and borrower finances. Closing delinquencies were up modestly on FY22 levels but were 12% below the prior corresponding period reflecting favourable ageing. The delinquency rate rose by 4 basis points from FY22 but was flat on the prior corresponding period.

Insurance expenses (inclusive of the amortisation of acquisition costs) rose 3% on the prior corresponding period, and the total insurance expense ratio[8] was broadly consistent increasing by 30 basis points on the prior corresponding period to 25.2%.

Insurance service result driven by positive experience variations

The insurance service result of $194.8m was up 37% on a strong prior corresponding period. The Expected insurance service result was $77.0 million, with $117.8 million of experience variations largely due to very favourable claims experience.

Net financial result benefitting from higher investment income

The Net financial result of $36.7 million represents net investment revenue/loss less an insurance finance income expense/benefit which incorporates the impact of interest rate movements on the value of insurance contract liabilities.

Net investment revenue was $65.3 million, up sharply from the loss in the prior corresponding period. Interest and dividend income more than doubled from the prior corresponding period and the running yield on the investment portfolio rose by an additional 60 basis points during the period to 4.9% at 30 June 2023.

The impact of changing interest rates on the value of the insurance liabilities was ($0.3) million, well down on the $101.4 million in the prior corresponding period.

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[7] Total incurred claims for 1H23 were negative, driven by a release of reserves.

[8] Calculated as the sum of Insurance expenses and the Amortisation of insurance acquisition cashflows divided by Insurance revenue.

Contractual service margin (CSM) balance flat

The Liability for remaining coverage (LRC) contains a component for future CSM, which represents the expected profit from the existing in-force business that will be released in the future. The quantum of CSM of $657.4 million was broadly flat on FY22 levels but was down 4% on the prior corresponding period as the recognition of CSM in Insurance revenue exceeded the CSM added by new business over the period.

Regulatory capital reducing towards targeted range but remains strong

Helia's capital position as at 30 June 2023 was 1.96 times PCA on a Group (Level 2) basis. The payment of the interim dividend and completion of the newly announced on-market share buy-back are expected to reduce the pro forma PCA coverage ratio to 1.80 times.

Subject to regulatory and shareholder approvals, Helia will continue to explore options to return excess capital efficiently to shareholders through a stable ordinary dividend with scope for growth, share buy-backs and special dividends.

It is the Board's objective to operate within the target PCA range of 1.40 to 1.60 times PCA over time and the Board currently expects the PCA ratio to be within the target range by the end of 2024, following the payment of declared dividends.

Outlook and FY23 guidance

FY23 Insurance revenue is expected to be within a range of $420 million to $460 million.

Over the course of 2H23 and FY24, Helia expects Total incurred claims to increase toward long term average levels, as delinquencies respond to expected modest increases in unemployment and higher interest rates, which may also impact dwelling values.

Given the nature of LMI, claims incurred can be volatile from period to period and are impacted by prevailing economic conditions. The average claims ratio over the last 10 years has been approximately 30%[9], which is representative of Helia's expectations through the cycle.

Net interest and dividend income is expected to continue to benefit from higher reinvestment rates, noting the running yield on the cash and investment portfolio of 4.9% as at 30 June 2023.

With a reduced number of shares on issue, the expected sustainable annual ordinary dividend has been increased to 28 cents per share with some scope for growth over time.

[9] Calculated as average of annual Net claims incurred divided by Gross earned premium ratio under AASB 1023 "General Insurance Contracts".

For more information, analysts, investors and other interested parties should contact:

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Briefing details

A conference call and webcast will commence at 10:30am (Sydney time) on Tuesday, 22 August 2023 to discuss these results.

Registration

Analysts, institutional investors, and media are encouraged to pre-register using one of the options below. Participants using the webcast will be in listen only mode.

Conference call: https://s1.c-conf.com/diamondpass/10031820-n5u1zi.html

Webcast: https://edge.media-server.com/mmc/p/5tans3qj

Replay

A replay of the webcast will be available on the Helia website within 24 hours.

https://investor.helia.com.au/Investor-Centre/?page=overview

The release of this announcement was authorised by the Board.